December Quarter 2019 Earnings Call of

Hindustan Unilever Limited

31st January 2020

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

Mr. Srinivas Phatak, CFO and Executive Director, Finance and IT

Ms. Suman Hegde, Group Finance Controller and Head of Investor Relations

Operator

Ladies and gentlemen, Good day and welcome to the Hindustan Unilever Limited Q3-FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Ms. Suman Hegde, Group Controller and Head of Investor Relations. Thank you, and over to you, ma'am.

Suman Hegde

Thanks, Raymond. Good evening, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening results for the quarter ended 31st December 2019. On the call from the HUL end, we have Mr. Sanjiv Mehta, Chairman and Managing Director and Mr. Srinivas Phatak, CFO HUL. As is customary, we will start the presentation with Sanjiv sharing his perspective on markets and HUL business, and then hand over to Srinivas to talk through the details of our performance for the quarter. Before we get started with the presentation, I would like to draw your attention to the Safe Harbor statement included in the deck for good order sake. With that, over to you, Sanjiv.

Sanjiv Mehta

Hi, Good evening, everyone.

Let me first talk about our clear and compelling strategy and we remain committed to our strategic agenda of delivering consistent, competitive, profitable, and responsible growth. This is something which should not be new to all of you who have been on these calls before. We manage the business for the long-term by investing behind brands to keep winning with consumers. And this is underpinned by our compass which is 'Purpose-led and Future-fit', hinging on three fundamental believes that we have as an organization: 'Brands with Purpose Grow', 'Companies with Purpose Last', and 'People with Purpose Thrive'.

Now moving to the market context, market growth on L3M basis has now slowed down to 0.3x of 2018 levels in value terms and 0.2x in volume terms. Rural has seen much sharper deceleration with its growth index to urban now down 0.5x. Urban growth has also slowed down. Market also witnessed disparate trends across divisions, with categories which are more discretionary seeing a bigger impact, while foods category being relatively more insulated due to its very nature.

Crude and currency continue to be volatile due to the geopolitical imperatives, global economic cycles, and trade dynamics. We are also starting to see inflationary trend in certain select commodities such as palm oil, food, and dairy.

The overall market environment continues to be challenging with liquidity issues, retail inflation touching five-and-half year high and downward revisions in the GDP growth estimates. This is reflected in the unemployment rate peaking, overall consumer sentiment weakening. Consumer confidence index has dipped to a six year low with both current situation index and future expectation index declining. The quarter also witnessed weather disruption in the form of late monsoon withdrawal, post monsoon heavy showers impacting kharif crops and delayed onset of winter.

In this context, we believe putting more income in the hands of rural consumers is a key element which could boost demand. We are hopeful that the government will take all steps which are necessary to provide impetus to the economy and spur consumption.

Coming to the quarter under review, I think we have delivered, and you will agree, a steady performance with 4% domestic consumer growth and 5% underlying volume growth, registered a strong 210 bps EBITDA margin expansion on a comparable basis. The sustained volume growth and margin improvement, we believe, is a reflection of the strength of our brands, our execution prowess and the rigor and discipline we have in implementing our consistent strategy.

While we continue to focus on delivering consistent, competitive, profitable, and responsible growth, our compass is calibrated by a sense of purpose. On this front, we are making good progress. On World Toilet Day, we launched another Suvidha Center, a community hygiene and sanitation center in Andheri East, which provides household access to clean drinking water, hygienic toilet, and modern laundry facilities at nominal cost. This is another good example of our start a little good initiative to create awareness and build infrastructure for health and sanitation. We are also rigorously continuing on a journey to meet the plastic commitments announced by Unilever in the last quarter. We have now switched to post consumer recycle content with Sunsilk and TRESemme bottles. Lifebuoy and Lux wrappers are now moved to mono-material, which is recyclable and lighter than earlier, reducing our plastic waste footprint. During the quarter, we launched a range of products under the brand Love Beauty and Planet with bottles that are made from 100% recycled plastic and are also fully recyclable. We continue to have undeterred belief in the business case for sustainability and our compass of 'Purpose-led and Future-fit' integrates sustainability with the strategy.

Now, let me share with you once more the performance drivers which are the key enablers to our steady performance, amidst the challenging market conditions.

- First is our focus on strengthening the core, where we invest behind the brands through stepped up innovation, sharper end market execution, leveraging our model. As an example, we launched a campaign on Wheel advancing its purpose of Think Fresh by giving women a platform to get up-skilled. This is how our brands walk the talk by making purpose tangible and relatable for the consumer. We also believe that this is a key differentiator for our brands to stand apart.
- Our second enabler has been premiumization and market development. We keep our focus on building a futuristic portfolio despite the turbulence in the market. This enabled us to unlock new opportunities across the price benefit pyramid with the agility and scale up quickly as the markets turnaround. We invest to maintain our competitive edge, looking at both, from a perspective of reach as well as ensuring that we remain competitive on our spends by having the right frequency.
- Moving to our third enabler, innovating for future, we do not shy away from investments behind innovations, even when the markets remain a bit muted. We have determined to stay the course and we are bringing both the relevant global brands into India as well as creating new jewels, local jewels, as well as exploring new business in channel models, which are future fit.
- Last but not the least is our execution, which always remains our top priority. We keep developing our execution capabilities by sharper end market activation, differentiated consumer insights, and improved operational efficiencies to continue to fuel our growth in this challenging market condition.

Looking ahead, while the near-term market outlook is cautious, we are confident of the medium to long-term growth prospects of the FMCG sector. We continue to build an agile and responsive organization under our digital transformation program, reimagine HUL to dynamically navigate the short-term challenges and also tap into the long-term structural opportunity. With that, I hand over to Srinivas to take you through the details of our quarter performance.

Srinivas Phatak

Thank you, Sanjiv. And good evening to everyone. You've heard Sanjiv talk in detail about the market context and some of the challenges, both in terms of the overall economy and liquidity. Against this tough market backdrop, HUL has, indeed, delivered a steady performance. Our Domestic Consumer Growth stood at 4% with Underlying Volume Growth of 5%. We delivered an EBITDA of INR2,445 crores, which is up 19%. Our EBITDA margins expanded 335 basis points on a reported basis and 210 on a comparable basis i.e. eliminating the impact of lease accounting. We've been calling that out for some time now just to make sure that it's a like-for-like comparison. Our Profit After Tax before exceptional items (bei) grew by 21%, and our net profit at INR 616 crores is up 12%. If you would recollect, in the base quarter of prior year, we had a one-off benefit coming through from some of our income tax provisions which had boosted up our bottom line and that's the reason predominantly why you see a difference between our PAT bei versus the net profit growth.

I think it will be a good summary to say that our growth in the quarter was competitive and our margin expansion was healthy, driven by our savings agenda and leverage in other expenses. If I were to talk you through from a divisional lens, we had a good performance in Home Care and Foods and Refreshments. Home Care continued its growth trajectory with another quarter of 10% value growth. Now we have seen this for many quarters that we have continued to clock that rhythm. Our Beauty & Personal Care had a negative performance of 1% impacted by delayed winter and certain Personal Wash pricing actions, and we'll talk about that a bit in detail when we come to the relevant section. Foods & Refreshment delivered a robust growth of 8% across the categories.

Now I would also just give you a flavour from a segmental revenue perspective. Last slide, what we spoke about was the USG and if you really see at the segmental revenues, the picture on top line does not fundamentally change. You would see that Beauty and Personal Care at a segmental revenue source of minus 3. You would recollect that this has got to do with the accounting for government grants, which is again a base effect issue. So, if you eliminate that, I think the best reflection of the performance would be a 10, a minus 1, and 8% as I've called up previously. And segmental margins have continued to be healthy at an aggregate, as well as at each of the divisional levels.

As Sanjiv talked about, notwithstanding the environment, we continue to invest behind our innovations and activations. We continue to keep the growth engine running and to this effect, we have seen a host of innovations during the quarter. I think a couple of notable ones are launching Love Beauty and Planet across multiple categories and also, bringing to the country our world over famous brand Hellmann's via a test launch of mayonnaise in Kolkata. That is something we will pilot and in due course, the success is something, which we believe, will have a much wider footprint to take it forward.

What we'll now do is to talk through individual divisions and call out some of the relevant aspects. As we said, in Home Care - both Fabric Wash and Household Care, we have seen good growth aided by core, premiumization and market development. We've started to see the benefits of these. During the quarter, we also launched Comfort Pure Deluxe in select geographies and that's progressing well for us. Purifiers, you are aware, we had redone the model by focusing on the premium segment. And it's progressing well and in the right direction for us.

In Beauty and Personal Care, while we said that the headline number was a negative 1%, I think there are two important aspects to call out. First is Skin Care, and if you see, it is again a story of two halves. The non-winter care portfolio did well. And you would all appreciate being closer to what's really happening in India, we had seen this time a prolonged monsoon and therefore a delayed winter. And it's one of the longest delays that we have seen in winter. Only somewhere in the mid of December we really started to see it go wide and deep. Having said that, even there, we have not seen winter really come out the way it normally does, whether it's in the western parts of the country or in the southern parts of the country. So, all of this had an impact on our Skin Care business and skin for us in December quarter is actually a large business. So that had an impact in terms of the headline numbers. Having said that, we will continue to focus. We are focusing on innovation and premiumization and that's something we will continue to do. To that extent, you have seen a series of innovations which got launched during the quarter. When you look at it from a Personal Wash point of view, I think, there are again two aspects to highlight. We have seen the market slowdown to be a bit more pronounced in this category. And as a consequence, if you look at December quarter, the overall value growth as reported by Nielsen is negative. You'd also recollect that with the softening of the commodity prices, there was a significant amount of deflation which happened in the category. And between September quarter and December quarter, we had taken down prices, almost to the extent of ~6 odd percent to pass on the benefits of the lower commodity. In a normal situation, that should have helped us aid some growth through volumes; but given the overall context of a slowing volume performance, we haven't seen the benefit come through at a net level. A combination of this has meant that our growth is not in line with our expectations from Skin Cleansing. When I see Hair Care, I think the performance has been good and across the portfolio. We talked a bit about Love Beauty and Planet which we launched. In addition to that, we've also launched Indulekha Neemraj oil, which is addressing the anti-dandruff part of benefit segments and we are quite excited about this range which has gone into the market.

In Color Cosmetics, we continue to tap into new opportunities by unlocking the rising aspirations of women across the country. We stepped up our innovation focus with the launch of 9 to 5 Naturale Makeup Remover and Lakme Absolute Ultimate Kohl. In Oral Care, we have seen a steady performance led by Close Up on the freshness proposition and Lever Ayush. Deodorants continues to be a tough category given the competitive intensity, which has been there for some time now. And our focus has been to continue to lead market development and we are committed to that.

When I look at our Foods and Refreshment business, we saw good and broad-based growth across our brands. Both Tea and Coffee did well during the quarter. There was a new communication launched on Lipton Green tea, strengthening its purpose of making India healthier. In Ice Creams and Frozen Desserts, as you would appreciate, it's winter and not a peak quarter for us. That's where we've continued our focus on expanding distribution and building an innovation pipeline for the season. Both these elements have worked out well. Foods had a good quarter for us, led by sharper activations basis differentiated consumer insights. And I've already spoken to you about the test launch of Hellmann's.

Now, if I look at the summary of our results for DQ, this is a snapshot view: Underlying Domestic Consumer Growth of about 4% with Volumes at 5% and Net Profit increase of 12%, but if you see it before exceptional, it is 21%.

A quick view on the nine months performance because it's also important to bring the context in terms of what's happened in the quarter and year-to-date. Our performance continues to be very resilient. For the nine months ended 31st December, our domestic consumer growth was at 6%. Our EBITDA grew at 14%, registering a healthy 190 basis points of margin expansion on a comparable basis. Our net profit was up by 16%. And you can see slightly higher numbers when you look at it before exceptional. I think what will be worthwhile to call out is that our growth has been competitive. Our growth continues to be profitable and it is a demonstration of strength of our brands and consistency of our strategy and the execution prowess. And that's an important element to call out both from a quarter perspective as well as year-to-date nine months performance.

Looking ahead, I think the market growth continues to be sluggish for the various reasons that Sanjiv has called out and, therefore, the near-term demand outlook is challenging. Commodities and currency have been, for some time now, and would continue to be volatile and, I think, that will really require us to manage it well. And therefore, if you look at our focus, it will continue to be on driving agility and responsiveness across the end-to-end value chain to get ahead of this challenging environment. Obviously, our model of delivering growth, which is consistent, competitive, profitable and responsible remains unchanged and that's something we have demonstrated during the quarter and that's something which we are committed to.
And on this note, I will hand it over back to Suman for question and answers.

Suman Hegde

Thanks, Srini. We'll now move on to the Q&A. In addition to the audio, as you already know, our participants have an option to post the question through the web option on your screen. We will take those questions at the end of the audio session of Q&A. I would like to remind you all on the call that the Q&A session is only for institutional investors and analysts. And, if anyone is on the call, who is not an investor or an analyst, but would still like to ask us a question, you can engage with our Investor Relations team offline. With that, Raymond, can you begin the Q&A session, please?

Operator

Sure. Thank you very much. We will now begin with the Question and Answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

<Q – Abneesh Roy>
Hi, Sir. My first question is on F&R with two sub questions. One, parent has announced a global tea business review. You have been gaining market share in terms of volume and value both in the last few years. So, will it be fair to understand that India business is not part of this? And second on the Hellmann's launch. Normally, launches are not done in the slowdown time, so what is the thought process behind this launch?
<A – Sanjiv Mehta>
Hi, Abneesh. Firstly, we are speaking for the first time in 2020, so, very happy New Year to you and I'm compelled to say that I'm sure that during your school days, when you must be playing soccer or cricket, you must be opening the batsman or playing center forward. Now picking up your questions: First on Tea, Unilever has stated that they are doing a strategic review for the global tea business which has been prompted by the slowdown in the black tea market in the developed world. And they have also said that the strategic review should get completed in about six-months timeframe. So, that is the position. As far as we are concerned, we will continue our journey on tea as it has been normal. And you're absolutely right, we have gained leadership and we will continue to strengthen our business. But let's wait for the strategic review and then we will see how things progress from there. As far as Hellmann's is concerned, I have always made it very clear that we play for the medium to long-term. We never play for the short-term. So, our strategy does not change. But we adjust our sales when times are tough. And we are not going to shirk away from innovation, nor are we going to shy away from market development during these tough times. So, Hellmann's is a great product and we are delighted that we have been able to bring it to India. We have started it by launching it in Kolkata and hope to extend it to rest of the country.

<Q – Abneesh Roy>

Sir, thanks for the answers. My second question is on Personal Wash. So, you have taken 6% price cut now and you have also looked at how to rejuvenate Lux and Lifebuoy. Now, if I see the number two player, they have seen a 5% volume growth in this quarter. So, do you need to do much more on, say, multi-packs or naturals? In naturals, you do have Hamam here and there. But on a national basis, do you now need a much stronger naturals soap because Wipro seems to be doing well there? And second on multi-packs, is that the way consumer is now buying? So, do you need to do much more multi-packs?

<A – Sanjiv Mehta>

First, Abneesh, I think there is no gainsaying that we have to do much more in Skin Cleansing and we are very cognizant of that. So, the first step that we did was to correct the price value equation, because the commodity prices had also fallen, and we believe we needed that to do that, which we have done. The second bit is, I'm very pleased that if I look at the volume growth, now they're in tandem with the market. So, very clearly from that perspective, it is heartening for us.

<Q – Abneesh Roy>

But markets have seen a decline, right?

<A – Sanjiv Mehta>

The market has seen a decline. You're absolutely right. But I'm saying that our growth is not very different as far as the volumes are concerned from the market growth. The other bit is, if we look at the national market, it's not everywhere that it is in multi-packs. There are markets still singles play a bigger part. And there are markets where multi-packs play a bigger part. Now, we also play that game based on our WiMI strategy and that's what we will sharpen further. I'm very confident that with the steps that we are taking in Skin Cleansing, we will certainly rebound even in value terms in the days to come. It might take some time, but we will definitely rebound strongly.

<A – Srinivas Phatak>

So, Abneesh, just a couple of things to add to what Sanjiv has said. One was the price corrections which had happened to pass on the benefits of commodity and that started somewhere early in July and the balance went through here in this quarter. Second is when we took some of those price reductions, we also got the price laddering equation right across our different parts of the portfolio; which I think was an important step that we have done. Some of the measures which we see, and some of the advanced measures such as penetration, we have started to see an improvement versus where we were. Then you also talked about volumes and as Sanjiv has explained, that is more in tandem with the market and we are not slipping behind. Having said that, the whole slowdown has had its impact. I think on this, it's relevant to also call out that the quantum of inflation which has happened in palm is sizeable. If you were to look at it, we have seen inflation upwards of 25% to 30%, which also now warrants us to look judiciously at taking up some prices across the portfolio. And that is something we will be doing over the course of next couple of months. It will take a bit of time to land the networks and to see the impact, but we are looking at pricing anywhere between 5% to 6% as things stand given the quantum of inflation. The inflation has been much higher, but we are being very judicious in terms of how we look at different parts of the portfolio. But you will see some bit of pricing coming through in due course.

<Q – Abneesh Roy>

And Sir, last question. So, general trade for you and most of the players has been laggard for last few quarters. Now, they have been calling out for parity in terms of pricing and packs also. Now, today one FMCG company highlighted that their e-commerce growth has slowed down significantly from a 300% growth last year, it has become just 5%. So, are you also seeing much slower growth in e-commerce?

And any comment on how general trade and e-commerce, modern trade will pan out from the pricing and pack perspective?

<A – Sanjiv Mehta>

See, for us, we have been very clear that we have a pack price architecture which has been developed for each channel, and there are many packs, which are exclusive to different channels. Just to highlight, we don't sell sachets in modern trade or e-commerce. Similarly, we have certain brands, which are exclusive for certain channels, like we have launched Love Beauty and Planet, which is right now only in e-commerce. So, our endeavour has always been that there should be a minimal overlap.

Our e-commerce business has still been doing very well. We are very satisfied with the growth rate and we have not seen the kind of fluctuation that you had spoken about.

<Q – Abneesh Roy>

Okay, sir. That's all from me. Thanks a lot.

Operator

Thank you. The next question is from the line of Vishal Gutka from Phillip Capital. Please go ahead.

<Q – Vishal Gutka>

Yeah. Congrats, Sir, on a good set of number and thanks to the entire team for allowing Sudhir sir to write the book on the company. It has given a wonderful insight. I have two questions, Sir. One is on the winter portfolio. So, do you expect some part to recover maybe during this quarter, because winter has been delayed? And second question is on Oral Care. What are you doing differently to drive growth over here because market leader is also struggling, and the category has also declined? And how are you positioning Lever Ayush as a brand?

<A – Sanjiv Mehta>

Let me first start with Lever Ayush. Lever Ayush, you know the platform and if you recall, we had first done a national launch and then it was a strategic call to concentrate on the south of the country. And that's where we are today. We are very pleased with the performance of Lever Ayush and we are also very pleased with the performance of our natural portfolio, which continues to grow 2x the rate of the average growth of the company. So, that is as far as naturals and Lever Ayush is concerned.

As far as Oral Care is concerned, there is a softening of the market. In certain categories, when the markets are sound and when there is bullish sentiment in the market, there are more than one brand that get used in the household. But when times are tough, people retreat back to a fewer number of brands within the household and people start sharing the tooth paste. And that is something which we have seen very clearly happening in Personal Wash also. And there is also a very clear tendency where people move from large packs to smaller packs. And whenever you move from a large pack to a smaller pack, we also see a drop in the consumption. So, these are certain factors which stand out which are nuances, which are specific to certain categories and not to every category. So that's what our story would be as far as Oral Care is concerned.

But as far as the potential is concerned, it is absolutely massive. The habit of brushing your teeth twice a day, that's day and night, hardly exists in our country. So, there is certainly much to be exploited as we go further, and we still believe very strongly about the potential of this category. And I'm very pleased that our performance as far as Close Up is concerned over the last few quarters, has turned around and now, we need to do a bit more work on our Pepsodent brand and that's what we are focusing our efforts on.

As far as the winter portfolio is concerned, Vishal, what you lose because of delayed winter, you do not get because the winter ends later. This does not happen, because as the winter progresses and you come closer to summer time, the trade also become very cautious in terms of stacking up with winter products, lest they are left with inventory as the season ends. So, I don't think that loss of delayed winter will be caught on. But let us see how this quarter pans out. And if we see that the winter continues for a much longer period, there would be some aspects that we would be able to recover.
And I'm glad you have read Sudhir's book

<Q – Vishal Gutka>
You are expecting approval from NCLT Chandigarh. So, at what time are we expecting that approval to come through?

<A – Sanjiv Mehta>
See, the next date of NCLT is 3rd of February and not very far from here. So, let us wait and see what happens on the 3rd of Feb.

<Q – Vishal Gutka>
Okay, sir. Thank you so much.

<A – Sanjiv Mehta>
Welcome.

Operator

Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

<Q – Percy Panthaki>
Hi, team, this is Percy Panthaki here. I just need some help in understanding your volume versus value equation. So, this is how I look at it. In soaps, you have taken a 6% price cut, of which about half was in the previous quarter and half in this quarter. So, incrementally versus last quarter, there is a 300-bps pricing cut this quarter which on the overall portfolio basis would translate anywhere between 50 basis points to 70 basis points. However, on a sequential basis, your overall pricing has changed by 300 basis points and soaps accounts for 50 basis points to 70 basis points of that. So, what would the remaining be? Have you taken any effective price cuts, either through promotions or MRP cuts on other products or has the cut in soaps actually been higher than the calculated 6%, because certain SKUs have seen 25% to 30% cut as well and customers may have gravitated more towards those packs and therefore, the price cut is higher than 6%? Or is there a third reason which I'm not sort of able to think right now?

<A – Srinivas Phatak>
Yeah. So, Percy, few comments. Give or take, the Cleansing reductions would have been in the ballpark that we've spoken about. Mix will have a little bit of a variation here or there, but that's not really material in its totality. If you look at our skincare part of the portfolio, obviously, when you go into a winter, you go in with lots of trade inputs along with marketing and everything that you would do. And when you don't see the volumes come through, we will end up with the potential negative pricing impact and we have seen part of that come through in our Skin Care business. Equally, as you will see that some of the intensity in the modern trade has been a bit high and that's across some of the categories. And obviously, we've matched wherever we had to in order to maintain competitiveness. So, we had also seen a bit of negative price come through in some of the sub-segments, which has also come through in terms of the totality. So, therefore, if I were to give you an answer, the big one would really be in Cleansing, another big one again would be in Skin Care and the rest would be against split across different parts of our portfolio.

<Q – Percy Panthaki>

Okay. So, in Skin Care, I didn't really understand it fully. Are you saying that basically because the demand was not there, you thought it prudent to increase the promotional intensity to drive the stock? Is that understanding correct?

<A – Srinivas Phatak>

Just help me by going with me. I think we've spent some time trying to explain to you. Because of a delayed winter, we did not see the volumes. But if you go in with certain plans, you go in with certain volume subset and you put on activities in general trade and modern trade. Finally, your trade spend is a function of what volumes you will realize. If you under-realize those volumes, I will end up with a negative pricing effect, because the absolute quantum of rupees that I put into the market isn't absorbed. I've got fixed TTS and that's what really happens here.

<Q – Percy Panthaki>

Okay, understood. And secondly, Sir, could you give us some color on what you see the demand outlook going ahead in terms of the overall volume growth for the company? You've maintained this 5% kind of number for the last few quarters. And I know you don't give guidance and I'm not expecting a number; but any kind of color that you can give on what you think of the demand outlook in volume terms?

<A – Srinivas Phatak>

So, look Percy, what we have said is that the demand outlook is a bit challenging. And if you look at even December quarter, the market growth has come down and Sanjiv gave you a view in terms of indices from a slightly longer term. And even if you were to look at the last three quarters, there has been a clear perceptible step down both from value and volume perspective. While our objective continues to be drive profitable volume growth; in this kind of an environment, it is getting quite challenging. Suffice it to say how it will move into the next quarter will be very tough to call, but overall outlook is challenging and something that we'll have to navigate. At this stage, it will be very difficult to make any kind of a projection on what volume or value numbers could be. Having said that, our objective will continue to be - our growth has to be competitive and growth has to be ahead of market.

<Q – Percy Panthaki>

Thank you very much.

<A – Srinivas Phatak>

Thank you, Percy.

Operator

Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

<Q – Aditya Soman>

Hi, good evening. A couple of questions from my end. So, firstly, in terms of the rural slowdown, I mean, we've heard a lot of reasons from lower income growth to liquidity concerns to even higher mobile tariff leading to the whole consumption. In your view, what are the sort of biggest drivers of the slowdown and more importantly, how do you see these factors improve over the next, say, 12 to 15 months?

<A – Srinivas Phatak>

So, I think, Aditya, possibly all the reasons you've called out are valid and there are many more. We haven't seen agri inflation for a long time. We haven't seen any incremental effects after MGNREGA went in. So, there are multiple factors which have happened in rural and over some period of time. And I think that's why we will always say that rural which was growing at about 1.5x, slowly became 1.3, parity, then started to come down. Today's it's at 0.5. See, sometimes it's very difficult for anyone to decipher and break it down into individual components. Sometimes it is one or two of them, sometimes it's a combination. And finally, at some stage, it also then starts to come down as the ripple effect when it starts to hit the consumer confidence. I think today what's happened is a combination of all of that which is leading to rural now growing slower. Perhaps that's also what is causing urban growth to start to come down. So, coming to the second part of the question, I think we just discussed this. Look, right now as you look at it, the market growth is looking sluggish and the demand outlook is challenging. The good part is the government is cognizant and has initiated many measures, and we are hopeful that over the course of next few weeks, we will see more. We are, as you do, waiting to see what budget can do and we are positive that some steps will come through. But at this stage to make a guesstimate or an estimate of how quickly will markets pick up and turn from here will be a difficult one.

<Q – Aditya Soman>
Fair enough. Now, the reason I ask is, because I mean obviously some of the liquidity-led concerns could be easier to fix than see a slowdown in the income growth, and if the challenge is a slowdown in income growth, how would you as a company respond to that?
<A – Srinivas Phatak>
Look, as a company, we do what we do best, which is playing the portfolio, playing the different brands, playing the different segments and continuing to drive market development. I think that's the best that we can do and we are doing everything we can. We also need some help from whether it's liquidity or the overall economy picking up, but that's something that we are hopeful will come soon, because the fundamental FMCG or the India story, we believe, is still intact. And I think Sanjiv has spoken about it and it is also there in our press release. I think this is a transitionary phase that we just have to work it through.
<A – Sanjiv Mehta>
Yeah. And there is also not one rural.
<A – Srinivas Phatak>
Yeah.
<A – Sanjiv Mehta>
There are several rurals and there are different aspects. There is one more, I don't know whether you have heard this before or not, for instance, the collateral impact of real estate. During the non-harvest season, there are lot of people who come in from rural area to work in the real estate construction industry. That has slowed down, which has impacted the income. Rural growth rates remaining soft, that's had a big impact. Then, in certain pockets, where depending on the kind of crops that are grown, the prices of crops, that also has an impact. So, there are different reasons why rural has got impacted. There is never one reason for a large economy like us.
<Q – Aditya Soman>
Yes, thank you. No, the only reason I ask this, I'm sorry to belabour on this, but was that some of these reasons are really hard for the government to even to fix in just one budget. So, in general, the expectation seems to be that it will be a much faster recovery. And I was just trying to understand where that confidence is coming from, but...
<A – Sanjiv Mehta>
Our thinking is that you need to put more money in the hands of consumers and certainly so in the hands of the rural consumers. And there are different ways you could be doing it. There could be some much more structural in nature where you reduce the subsidies and put more money, the direct

transfer of money to the hands. And there could be somewhere you could play with MGNREGAs, increase the number of days, increase the rate per day. Those are the kind of levels they will have to play to put more money, but that's what is needed today.

<A – Srinivas Phatak>

So, Aditya, I think good to add just a couple of perspectives. As Sanjiv has said many a times, we run the business for the medium to long-term. We don't really run it for the short-term. I think that's an important lever to look at. And we've always been very optimistic on the medium-term potential of the FMCG sector. So, if you add both, yes, we continue to believe there is opportunity. I think just want to add saying that we have not said anything to the effect that we expect the turnaround to come faster or turnaround to come slower. All that we've said is that when we look into the near-term, the demand outlook is sluggish, and the market growth is sluggish and demand outlook is a little bit challenging. I think I just put to contextualize that in terms of what we have said.

<Q – Aditya Soman>

Fair enough. Thanks a lot, Sanjiv and Srinivas. That was very clear. Thanks.

Operator

Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

<Q – Amit Sinha>

Yeah, hi. Thanks for the opportunity. My first question was on your other expenses. In the last two years, we have seen significant improvement there. Just wanted to understand how much is this related to GST-led savings? And also, wanted your commentary on the overall cost savings program. Has it accelerated in the current environment? So, these two things on the other expenses.

<A – Srinivas Phatak>

So, let me talk through the second part. If you look at our savings program, we've talked about running with an ambition of 7% plus in terms of turnover. We've talked about it for a few years now. And that's something we have been able to continue to maintain thus far into this year. I think that is helping us generate a lot of gross savings, which, therefore, we are able to use for multiple things, whether it's for investments or see some of the benefit coming into bottom line. As we look at other expenses, I don't think there is GST related any call out in that. Other expenses are a combination of many things. If I were to give you a picture of two or three things which typically tends to happen. And you can just go back, in September quarter, you'll see some of our other expenses were slightly higher than normal levels. And at that time, we had also called out that some of these expenses are phasing expenses. If you see last year, we had December, which was slightly higher. At that time, we were trying to explain why December was higher. So, there is one aspect of phasing of expenses which happens between September quarter and December quarter for us. Second, we've also talked about this: as we look at some of our plans, given that some of our innovations and some of the work runs on a calendar basis, we also end up having some expenses which come through between September and December for next year's innovations and next year's plan. So that also has a bearing in terms of how some of these costs change. The third element, which has also happened is that as we have gone through some critical contracts we had, whether it was in the space of our transport contracts or whether it was in terms of some of our contractual other contracts and we've had some successful negotiations, which have also meant that we have realized some savings, which by definition means that we would have accrued it a bit higher in the prior quarters. And we've got that benefit coming into the current quarter. So, this is where I'd simply try and say, when I try and feed on the year-to-date basis, they all tend to equalize. But there will be a bit of phasing which happens even on that account. So, it's a combination of these three or four things which then start to give you a flavour of the movement in the other expenses.

<Q – Amit Sinha>

Sure, sir. When I said GST related, I meant the savings on the logistics part?

<A – Srinivas Phatak>

Sure. That comes in. Sorry, look, all of that does come in, because when you look at the GST part, it comes in multiple lines for us. Some of it comes through in material and some of it comes through in logistics. To that extent, absolutely right. We are gaining on that and we continue to see the benefit.

<Q – Amit Sinha>

Sure. My second question is on your premium versus popular portfolio. While the premiumization journey in the last few years have been phenomenal for you and you are obviously over-indexed there and some of the efforts which we see from you as a company, we see a bit of aggression more on the premium side. However, on the popular side of the business and I mean, this is like across the categories, we have not seen a similar kind of aggression. And my commentary is more on the sense that you might not have lost market share across some of these popular brands, but was there a bigger opportunity which we have missed? I just wanted some commentary there because when I see your new launches or the market development or the investment across A&P et cetera, it is much more bent towards the premium portfolio.

<A – Srinivas Phatak>

I think, Amit, we all need to go on a journey of trying to see how rural Bharat is playing out and what is that HUL does. I think many of us sitting in the cities end up seeing more of the digital mediums and we see some of the popular channels and therefore, sometimes it tends to give us an impression that there is only a focus on premium. For sure, premium is an important and a critical part of the market and therefore, we are committed to do a lot there, and we will. If I were to just give you an example, even if you see a brand like Taaza for us, for a fair amount of time, it's been completely a story of upgradation of tea from loose to branded, and Taaza is again been a very, very good example and a classic example of how we are continuing to drive opportunity there. We're also fairly aggressive when you look at a lot of the price point packs that we do, INR1, INR2, INR5 and INR10 in many of our big brands continue to be again very, very relevant as we continue to recruit consumers into the category and also then upgrade consumers through the whole journey. So, I think the best way to describe is, we want to capture every opportunity of growth, whether it is premium, whether it is the mid, or whether it is at the bottom. And we are continuing to do that. And that's how I would really explain it and I'm just looking to Sanjiv if there are any...

<A – Sanjiv Mehta>

No. I mean, recently we initiated a very big activation on Wheel with Reliance Jio, which is about providing life skills to women in a very big way. It's a massive activation. So, we are certainly not vacating the mass plans. We are competitive and look at the last couple of years, one of the reasons behind the resurgence of entire laundry business has been not just Surf excel. We have also become very competitive on Wheel.

<Q – Amit Sinha>

Just a follow-up there. I mean, I'm not subscribing to the view that you have lost market share. Just wanted to understand that could we have been more aggressive in some of these popular brands? But anyway, I mean, I think you have answered my question. So, thanks a lot for this. That's it all from my side.

<A – Srinivas Phatak>
So, Amit, just as the order, just to talk at the risk of repeating myself. I think we have done everything to capture opportunities, and I don't think we're in a position to say that we've lost anything, because we are aggressive in one space than other.
<A – Sanjiv Mehta>
Yes.

Operator

Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
<Q – Tejas Shah>
Good evening. Thanks for the opportunity. First question is an extension of an earlier question on rural slowdown, which we perhaps called out first on the street. But one common reason that we heard this year was that the liquidity crisis in rural areas was major reason for slowdown. Now, if I look from last budget and based on the official data, schemes like PM-Kisan actually helped 6 crore farmers and distributed some INR36,000 crore, which is a sizable number compared to MGNREGA allocation also. So, when you say slowdown, is it even in the areas which adopted such schemes? Are we seeing slowdown there also, where liquidity won't be that much of an issue? Or as Sanjiv pointed out that rural slowdown has also multiple shades? So, some are actually not as bad as it appears on the aggregate numbers.
<A – Srinivas Phatak>
I think Sanjiv has explained it. For example, if you see parts of Punjab, if you see parts of Haryana, if you see parts of UP, Bihar, Bengal, we have seen a bigger slowdown in rural markets in some of these states. That's not been the case when you start to look at some of the southern states and if you look at some of the different parts. So, there are different flavours, different shades and different contrasts and therefore, it's very difficult to call out and just paint a picture on a uniform basis.
<A – Sanjiv Mehta>
But certain fundamental things like the wage rate being low, like the non-food inflation being higher than food inflation, those are the main fundamental issues definitely. And what happens is, it percolates, right. It is initially one, two, three years. It takes time and then you start seeing the compound effect of the last few years' wage rate being very low.
<Q – Tejas Shah>
Yeah, so the reason I am asking this question is that, let's say, in markets, rural markets where liquidity is not an issue, is it that the highly penetrated categories don't have that much levers to grow further and that's why we have seen wallet share change in some of those markets?
<A – Sanjiv Mehta>
Our penetration, if you look at it, there is no category in the country, urban or rural, which is anywhere close to maturity. You have seen how in a category like detergents or home care, where the penetration is near universal, we have kept growing at a clip pace.
<Q – Tejas Shah>
Sure. This is very helpful. Second question pertains to a brand which has not been discussed, Indulekha. We are witnessing a sharp slowdown in the category from other players. So, versus that, how is Indulekha performing, if you can share some details there?
<A – Srinivas Phatak>

Indulekha has done quite well for us. It's been again a very good quarter. And for us, we have not seen such issues. We are quite pleased with it actually. Indulekha has been continuing to perform.

<Q – Tejas Shah>

And are we planning to expand the franchise to other segments of hair care?

<A – Srinivas Phatak>

So, we just talked about the new innovation, we talked about...

<A – Suman Hegde>

Shampoo.

<A – Sanjiv Mehta>

Shampoos we have.

<A – Srinivas Phatak>

Yeah, shampoo, we have done. But we've also now introduced more repertoire in terms of our oil segment itself. It's now in shampoos and it's in hair oils.

<Q – Tejas Shah>

Thanks. And that's all from my side, and all the best.

<A – Srinivas Phatak>

Thank you.

Operator

Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

<Q – Harit Kapoor>

Yeah, hi. So just two or three things. Firstly, just a clarification, when you said the 5% to 6% price increase that you could look at, that would be on average on the soaps portfolio, right?

<A – Srinivas Phatak>

That's correct.

<Q – Harit Kapoor>

Okay. The second thing, until the first half of this year, in spite of the slowdown, premiumization was a theme that was fairly consistent. If you could just comment on, in the increased slowdown, have you seen premiumization as a theme for you also slow down or it hasn't worked out as well?

<A – Srinivas Phatak>

So, the overall markets have slowed down across. It's broad-based whether it's premium, popular, when you look at the mass. But within this context, even if you see, premium is still growing faster than the other segments.

<Q – Harit Kapoor>

Got it. Last thing was just wanted to pick your brains on something. So, Nielsen reports these numbers and they have said that growth has also slowed down. But at the same time, while they have these numbers, they also project for quarter four and quarter one to be slightly better than quarter three. So, I just wanted to understand from your end, how do you kind of match the two things?

<A – Srinivas Phatak>

So, what we've already said is that don't go for an absolute number. So, even today when we talk about Nielsen and reported growth, we just wanted to give a context of the direction of where it is and where the slowdown has happened. It is very tough for us to say how they're reading and making a projection into the future. We don't do that. So, it's also difficult for us to answer that question. I think what we see is that the market growth continues to be sluggish at this stage. But we are hopeful, with various measures which have been initiated and hopefully will get initiated, that we'll see a bit of a pickup. But tough for us to really comment on their reflection of what quarter four will do.

<Q – Harit Kapoor>

Very clear, sir. Thanks, and all the best.

Operator

Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

<Q – Manoj Menon>

Hi, team. Congratulations on a good performance given the context. Just one small clarification on this – On December 16th, we had this Unilever PLC sales warning which actually spoke about a sequential deceleration, or rather I'm just quoting it, they talked about a significant deceleration. I understand that if, let's say, there is a release which comes on 15th or 16th, probably the data would have been considered to look few days prior. So, I'm just trying to understand that when I look at HUL's performance, given the context that Unilever calling out that growth in South Asia also has decelerated, from a volume point of view, it's 5 in September and 5 in December. Is it that post the release we had seen some changes to the trajectory? How do I actually reconcile the statement versus the actual performance?

<A – Srinivas Phatak>

So, look, Unilever comment was at its overall global operations. So, I'm not going to comment on that. If we look at South Asia, there is again a component of India, Pakistan, Sri Lanka, Bangladesh. That's one aspect. But the other way you have to see it is that, it's also on a YoY or year-on-year comparison, in term of, if you were to look at December quarter last year, if you were to look at December quarter this year, it will give you a certain perspective in terms of what's been the growth in the base. In the base we grew upwards of double-digit. And here we have now talked about whatever growth that we have talked about it, 4%. So that's another lens if a corporate has to look at on a YoY basis, how does performance look like, and the impact that it does. So, that's one reason which I would believe is important from Unilever perspective and so over many other reasons in other geographies and other markets.

<Q – Manoj Menon>

Okay, understood. Secondly, coming to the quarter's gross margins, given the various movements in terms of pricing, inputs, et cetera, would it be a correct assertion to make that most of the gross margin expansion is a flow-through of the better mix?

<A – Srinivas Phatak>

Flow through of what, Manoj?

<Q – Manoj Menon>

Premiumization. Better mix basically, not just Premiumization. Channel mix and better mix?

<A – Srinivas Phatak>

It's a combination of a few things. So, look, savings program fired well. Even when you add in some of the commodity inflation, we were aided through covers and our buying strategies, that came through. And it's also a combination of, we also had certain one-off or not one-off, I can't call them one-off, but certain higher other expenses in the December quarter. It's a combination of few and I think Suman wants to add to give a better colour. Suman, go ahead please.

<A – Suman Hegde>

Manoj, is the question, if I understood right, on the gross margin improvement YoY?

<Q – Manoj Menon>
Yes, that's right.
<A – Suman Hegde>
Yeah. So, actually driven by two things. If you look at material cost in the base quarter last year, they were quite high. So, sequentially, of course, we're seeing inflation. But if we look at the crude levels in DQ'18 are one of the highest and also oil was substantially higher than where we saw December quarter this year. So, a lot of it is driven by material cost coming off and of course, like you rightly said, some amount of it is mix as well. But...
<Q – Manoj Menon>
No, what I just -- sorry, go ahead.
<A – Suman Hegde>
They are normally driven by material deflation on a YoY basis. DQ cost in 19 was still lower than what DQ'18 was.
<Q – Manoj Menon>
Understood. Just to sort of simplify the way of thinking about it, so the historical thought process was that when there is an inflation, it's all about judicious price increases. Now, probably in the last decade or so, we are not really seeing this sort of a market context. Is it fair to say that that thought process of judicious price increases is still relevant assuming there is or rather as we have seen some inflation now?
<A – Srinivas Phatak>
So, look, I think that has absolutely remained unchanged. If you look at the quantum of inflation that you've now seen both in vegetable oils. Palm is up some 25%-30%. Even if I were to give you a flavour of SMP, if you were to look at the SMP price increases, the cost increases are upward of 50%. I think our approach has always been judicious pricing without losing competitiveness and that's how we are looking at it in terms of calibrated pricing where required.
<Q – Manoj Menon>
Okay, sure. Very clear. Thanks guys. All the best.
<A – Srinivas Phatak>
Thank you.

Operator

Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
<Q – Shirish Pardeshi>
Yeah, good evening, gentlemen. And, Sanjiv, congratulations, I heard you have been promoted yesterday on the Lever call. So just couple of questions. In my observation, we are seeing that India has got about 6.6 lakh villages and the wholesale component was much larger in the largely penetrated categories. And we have been seeing liquidity issues, which are persistent in last two, three quarters. So, is the wholesale connect also one of the challenge, which is seeing the significant slowdown other than the rural general slowdown and the reasons what you have mentioned?
<A – Srinivas Phatak>
Shirish, we are all slightly perplexed as to who got promoted in yesterday's call. But we leave that for now. Look, overall wholesale, if you see, I think, wholesale has actually been largely under stress from liquidity perspective, number one. And second is that, as they are seeing an overall slowdown, the

consumer confidence is also something that they're not feeling it. When something like this tends to happen with wholesale channels, they don't stock up to the levels that they normally do. So, that's, I think, the incremental piece, which is actually playing out here, if I've understood your question right.

<Q – Shirish Pardeshi>

Okay. The second question on the pricing action you've taken on Personal Wash.

<A – Srinivas Phatak>

Yes.

<Q – Shirish Pardeshi>

The basic question is that, in a slowdown time, generally when the liquidity issue is seen across the channels, do we really see the effect of the penetration being driven by the promotions or the inventory gets piled up in the trade channel?

<A – Srinivas Phatak>

I think, Shirish, there are two or three things that you've talked about here. I think first is, if you're talking about the price reduction, we took about six odd months ago and we've spent on for some time. That was done to pass on the benefits of the lower commodity.

<Q – Shirish Pardeshi>

Okay.

<A – Srinivas Phatak>

We did that. So today, as you are also seeing that there is significant inflation coming through, we are looking at taking up pricing. So, I think, if you maintain the right price value equation and you continue to do market development, you will gain penetration over a long period of time. I think that's the better way to handle it rather than treating it as a short-term phenomenon, either of an increase or a decrease.

<Q – Shirish Pardeshi>

So, what I mean to say is that with this pricing actions, has the trade stocking gone up? Because generally my sense is that, in winter, the bathing happens less. And you have taken a pricing action in Personal Wash. I still can say that Skin Care is still justified. But is there any situation where the trade inventory would have gone up?

<A – Srinivas Phatak>

I don't have any data which continues to indicate to me that my trade stocks have gone up in any of the categories, because we sell to demand, we don't sell to stock up.

<A – Sanjiv Mehta>

Yes. Our stocks have not gone up in trade.

<Q – Shirish Pardeshi>

Okay, just last one question. On the cash and carry, we have seen that there is incremental benefit which is enjoyed by most of the companies. But on the flip side, the traditional distribution is also under challenge. So, what do you see is the way forward? Is it that traditional trade is going to go away and the cash and carry is going to take over in next, say, five to six years' time?

<A – Sanjiv Mehta>

The answer is no. The way we look at cash and carry is in a much more strategic sense because we have a direct distribution to a very large extent. We use cash and carry to act as complementary to our direct distribution. So, we look at cash and carry to help us with the market development categories and in our core categories, we very clearly look at it so that it does not result in cannibalizing our direct distribution.

<Q – Shirish Pardeshi>

Okay. Got it. Thank you and all the best.

<A – Sanjiv Mehta>

Thank you.

Operator

Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

<Q – Rohit Dokania>

Yeah, good evening. Thank you for the opportunity. Could you talk about in terms of the regions- if any of the regions have grown better than the others and also, if any of the regions you are seeing any bit of green shoots, if I may use that word?

<A – Srinivas Phatak>

I think, Rohit, what we have done is a couple of things. If you see from an urban-rural, of course, rural is growing about 0.5X of urban.

<Q – Rohit Dokania>

Sure.

<A – Srinivas Phatak>

We've said that with the modern trade, it's a channel which is continuing to be a bit resilient as we see even from an urban area in comparison to GT. So, sometime back I called out saying rural slowdown was a bit more pronounced in certain markets of UP, Bihar, Punjab, Haryana. I think that's in the same place and if you really see, some of the southern states have held on better. I think that's some of the examples that we have quoted about in terms of how we are seeing differential growth.

<Q – Rohit Dokania>

Sure, thanks for that. The other was, now that we are getting closer to the GSK transaction, we did spoke earlier about 800 to 1,000 odd bps kind of a margin improvement. So, I was just wondering, for FY21, could we assume a 50% to 70% of that benefit to come through, or it's too early to sort of build that?

<A – Srinivas Phatak>

I think, Rohit, let's wait closer to the date of the amalgamation. I think once we get all NCLT clearances, we'll be in a better position to give you a good perspective. You would appreciate that today it's a listed company and we run them separately.

<Q – Rohit Dokania>

Sure.

<A – Srinivas Phatak>

While we have worked on many things and we are working on many things in terms of how do we unlock value, we'll be able to give you some perspectives without giving guidance only closer to the date of the merger.

<Q – Rohit Dokania>

Sure. Understood. Thanks a lot and wish you all the best.

<A – Srinivas Phatak>

Thanks.

Operator

Thank you. The next question is from the line of Bismith Nayak from RW Advisors. Please go ahead.

<Q – Bismith Nayak>

Thanks for the opportunity. So, continuing on the GSK merger, the 800 to 1000 basis points margin expansion, are we talking about PAT margin or PBT margin?

<A – Srinivas Phatak>

So, I think, Bismith, go back. We talked about an operating margin increase, and we had talked about certain baselines that were deduced at the time when the merger got announced. That's the right way to look at the value, because the share swap ratios and the whole merger equation got put together at a certain timeframe and certain numbers. Now we are at least 12 months down the line and I just said, we will relook at all of this in terms of what we need to share with you closer to the date, once we get the NCLT approvals.

<Q – Bismith Nayak>

But what are the main cost and revenue synergies that you expect to gain?

<A – Srinivas Phatak>

Bismith, I don't think in this quarter conversation it's the right one to go back to the merger case. If you go back to some of our old literature, you will find very detailed explanation which are on our website. And we'll talk more about this when we are closer to the date of the merger post NCLT.

<Q – Bismith Nayak>

Okay. And last one would be, what is the direct reach both in urban and rural?

<A – Srinivas Phatak>

We don't quote that number and we have not quoted that number for many, many years now, Bismith. Needless to say that we continue to expand direct coverage every year.

<Q – Bismith Nayak>

Okay, thank you.

<A – Srinivas Phatak>

Thank you.

Operator

Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

<Q – Kunal Vora>

Yes. Thanks for the opportunity. So, I was looking at last few years data, and I see that consumer staples companies' sales growth has been lagging nominal GDP growth for last few years, which was not the case earlier. Do you think consumer spending is getting diverted to other things such as white goods, mobile phones, higher interest payment and that's hurting this spending on staples? And do you think we should get back on track with consumer spending catching up with nominal GDP growth on staples?

<A – Srinivas Phatak>

Look, when we look at some of the data, I think it was useful for us, because there's lots of composites which come into a GDP construct. It's just not a one-to-one correlation. The piece which we have done some time ago was to at least try and get a bit of a surrogate in terms of volume growth and how they look like. Depending on the period and how deep and how wide you look, we saw a range of about 0.6, 0.7 of volume to GDP correlation. But to be honest, these are very, very headline structural once-in-a-while exercises that you can see in terms of longer term trajectories. Because after a point in time, I think what you need to see is that how do you drive some of the market development opportunities because we are seeing, from an India context, there is massive opportunity in penetration, in consumption. I don't think after a point in time, any of these equations really tell us. It finally comes down to doing how well are you doing to unlock your opportunity.

<Q – Kunal Vora>
Second one, agri commodity inflation has returned. We've had a good monsoon, reservoir wells are up, our rabi crop outlook is good. Are you seeing any green shoots? Multiple times (discussed) between us but just…

<A – Srinivas Phatak>
As of now, we are saying it's sluggish. As Sanjiv also said, it is not that there is only doom and gloom and there is not like only one rural. There are still parts of the country which are being resilient, and which are growing. But I think what you want to see is a broader growth pickup if you want to start seeing a much buoyant FMCG industry.

<Q – Kunal Vora>
That's very helpful. Thanks. That's it from my side.

<A – Srinivas Phatak>
Thanks.

Operator

Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.

<Q – Anubhav Sahu>
Yes, sir. Just one question. You have said a bit on that, but just want to understand on a relative basis, when we look at urban demand versus rural demand, do you think that going forward probably the urban demand could be a more challenging thing than the rural demand, given that lot of commentary has been coming from your peers about the supply chain issue and with respect to liquidity challenges?

<A – Srinivas Phatak>
So, I don't see any reason to start saying why will urban demand or rural demand be more challenging. I think if you'd step back and say, many of the measures which have been taken - Are all measures in the right direction? Yes, they are. Do we believe the policy makers and the government is cognizant and is committed to doing many others? I think, we are. And if all of that is true, I think we should continue to be optimistic in terms of what will happen and how will market growth bounce back rather than get unduly worried about the challenges and whether urban will start to go below rural. At this stage, at least, we don't see any reason for us to start thinking on those lines.

<Q – Anubhav Sahu>
Okay, got it. That's all from my side. Thank you.

<A – Srinivas Phatak>
Thank you.

Operator

Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.

<Q – Pulkit Singhal>
Yeah, hi, thanks for taking my questions. While I understand the market context and the charts clearly show the kind of slowdown that we are witnessing, but I'm just surprised to see that this slowdown is quite restricted to just the BPC category. I mean, home care and foods and refreshments are still growing at 10% and 8%, which is quite good. So why do you think these categories are immune to the slowdown?

<A – Srinivas Phatak>

So, I think, if you look at this, just go back and re-look at the chart. I think what we have said is that overall markets are slowing down. We've said that, in discretionary segments, the slowdown is more than what you have seen in the other markets. A question of in-quarter performance is at the end of the day, 5% is a good performance and that's why I also said that we continue to believe that our growth in the quarter has been competitive, which is really ahead of the market. So, we're also getting benefits of gaining share and doing well. And that's how you really explain the performance in home care and foods and refreshment.

<Q – Pulkit Singhal>

Okay. So, this is largely market share gains is what I should read from this side, in Home Care and Foods & Refreshment.

<A – Srinivas Phatak>

Yes, because the overall markets are slowing down. I've got a strong portfolio, we are doing well and there are good market shares gains.

<Q – Pulkit Singhal>

And in terms of the premiumization trend, one would tend to expect, in the consumers slowdown time, that should at some point get impacted as well; certainly, hasn't so far. But is that a risk that you foresee?

<A – Srinivas Phatak>

So, I've said that, overall, even premium has slowed down. I've not said that premium has not slowed down, it has absolutely slowed down, but still growing faster than the other markets. So, we have seen slowdown across the board. But premium is still growing faster than popular and mass.

<Q – Pulkit Singhal>

All right. Thank you and all the best.

<A – Srinivas Phatak>

Thank you.

Operator

Thank you very much. That was the last question in queue.

Srinivas Phatak

Yeah, so very quickly, I'm just picking up a few questions which came on the web link.

The first question was on the global tea business under review. I think Sanjiv has already answered that question. This was a question which came from Binoy Jariwala from Sunidhi Securities. Sanjiv has already answered the question.

The second one was again from Binoy talking about our Food Solutions business and our focus area. I think this is again a very interesting part of our business. We're committed to this business and we're continuing to invest both from a portfolio and a go-to-market point of view to unlock the opportunity. So that's a consistent strategy, which we've been following some time.

The next question is from Amit Sachdeva from HSBC Securities. He says that hair care portfolio seems watertight and significant innovation has happened over the years. It appears that skin care portfolio has not been shifted aggressively. What are your plans to fortify this segment?

Amit, your point is right, we would like to do much more in our Skin Care portfolio, and that's something which continues to be a focus area for us. But, yes, we are working on it and you will see a lot more happening. Even if you were to see in the last few quarters, I think innovation intensity from our side has gone up and that's something that we will continue to pursue.

The next question is again from Amit Sachdeva from HSBC Securities. The question was the growth of e-commerce in certain pockets of the countries and rise of other aggregators has weighed on the throughput of some of the GT distributors, in some cases quite significantly. How is the situation evolving? Are you deliberately consolidating the GT channel? I think Sanjiv have explained earlier in terms of how we are thinking about channels and our portfolios in context of the channels. When you look at GT, it is an important channel for us. We continue to expand our distributors. We are consolidating distributors where it makes sense. Equally, we are putting in more distributors in many parts of the country to leverage the full opportunity that the GT channel offers.

The next question is from Nitin Gupta from SBI Capital. The question is in Personal Wash. You're aggressive in premium soap, but not in the liquid wash, shower gel, any reasons for limited focus on liquid wash? The second question is, for Unilever future growth categories are luxury, beauty and nutritional. We do not have any luxury brands listed in India. Is there a plan to launch some offerings? Nutrition segment is evolving in India and what products are expanding and what can we expect HUL to follow the same path?
The first point is, yes, there is an interesting market opportunity in terms of liquids and shower gels. And we have a portfolio. As you look at our skin care or skin cleansing part of the business, I think we are already making lots of interventions even on our core with Lux and Lifebouy. It's important for us to do that well and execute it and land it. Equally, we are committed to the liquids part of the portfolio and we are progressing and that's an area that you will see us progressively step up because it's also market development category. On your question about luxury brands and premium brands, I think it's best to call it as a premium brand rather than a luxury brand for us. And if you see examples of what we have done with Love and Care in Home Care or Love Beauty and Planet, these are some good examples in terms of how we are bringing brands from the Unilever stable to India at the right price point and into the right channel to grow this. Our Nutrition segment, if you look at it, GSK for us in a manner is about HFD segment or the health food segment. So, to that extent, there is an interesting play there. I think we'll first like to focus on what we can do to get that. First, get the day one done and accelerate growth there, and that would be our focus for now.

The next question is coming from Najman Isa from Sumitomo Mitsui DS. Two questions. Could you please share some update on the e-commerce initiative with kirana shops versus internal expectations? How has that helped amidst challenging environment and what is the potential?
Tough to understand the question, but I think Sanjiv has spoken about channels and how we are looking at it from a portfolio point of view as well as our growth opportunities. If the question is on HumaraShop. There are couple of initiatives in the e-commerce space. One is that we are taking our Shikhar app which is a way to digitize the ordering by a retail store back to HUL and make servicing. I think that we are continuing to expand the Shikhar app. Encouraging and good results. If the question was on HumaraShop, HumaraShop is something which we have limited to a few cities and working on multiple models. We're very encouraged that we have been able to crack through some viable business models in a couple of states and we are now testing it deep. And based on the success of that, we would look to

go wider with that. E-commerce channel for us, one of the questions, is about 2% to 3% and we have seen healthy growth rates in that channel.

If I look at the next question, it's come from Alok Shah from Edelweiss. What will be the appointed date for HUL GSK merger?
I think, Alok, just let's wait for the NCLT approvals and clearances. Once we get clarity on that we'll be able to come back to you to answer that question in a specific manner.

The next question is from Binoy Jariwala from Sunidhi Securities. Sanjiv has spoken about looking at a vertical take-off in GSK from day one.
Absolutely, he continues to say that every day to us and even before I read the question.

Would it be wise to assume that the blueprint on integration distribution expansion is ready? Would also be helpful if you could share some thoughts on the work in progress that's happening on the front.
Look, lot of work has been happening with respect to the GSK integration. One needs to be conscious that it all has to happen within the remit of what is allowed under legislation, because it's also a listed company. Within that limit, we have had extensive discussions in terms of portfolio, how we want to look at media, how we want to look at some of the value unlock opportunities and we are also getting ready in terms of some of the systems and the processes and IT integration. So, all of that is something which is work in progress, but for us to implement that, the merger has to get effective. We are quite excited and to be honest, I think we are as well-prepared as we can be given some of the restrictions or the constraints that we have with respect to the merger. But all in all, I think we are quite excited and our objective continues to be to secure a vertical take-off.
That's all the questions that we had on the web link. I'll now hand it over to Suman to really bring the call to a close.

Suman Hegde

Thanks, Srini. So, with that we come to the end of the Q&A session. The replay of the event and transcript will be available on the Investor Relations website in a short while and you can go back and refer to it for any clarifications. A copy of the results and the presentation also is available on our website, you can refer to that.
With that, I draw this call to a close. Thank you everyone for a patient hearing and have a good evening.

Operator

Thank you very much. On behalf of Hindustan Unilever Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

Disclaimer: This transcript has been edited to remove any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking.